



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes hover just under their breakout zone at the 121 level, which currently held as resistance (a price target was hit). Watch this level for an upside breakout if stocks continue their decline.

S&P 500: In my opinion, EVERYTHING rests on what happens in the S&P 500, so pay EXTRA attention in the week ahead. You can summarize it as such:

IF the S&P 500 falls and breaks under 1,040, THEN 10-Year Notes will break above 121, Gold will move to \$1,250 and perhaps \$1,300, Oil will fall under \$69 perhaps to \$60, and the US Dollar Index will break above \$87 and could move as high as \$92.50.

IF the S&P 500 holds support and buyers step in to defend support, THEN we can look to see resistance in Notes at 121, Gold to decline if investors are less fearful, oil to break back above \$75 and move perhaps to \$80, and the US Dollar Index to break support and move down to \$85 or lower.

Gold: Gold is detaching from its normal correlation with oil and stocks, and is seen as a defense against the falling Euro in a time of economic crisis. It is 'doing its own thing.'

Crude Oil: Oil held support at the \$70 level, but now stands at resistance at \$75. What happens in the S&P 500 will play out similarly in oil.

US Dollar Index: The Dollar is trapped between \$87 and \$85 short-term, though again, if we see stocks break 1,040, we'll see a Dollar break to the upside that would take us to \$90 if not \$92. If stocks support and rally, then we'll see a move down to \$85 or slightly lower.

The week ahead is VERY important for ALL markets so be prepared to make adjustments that could last for weeks.

Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

A RISING Dollar (Index) is BEARISH for Stocks and Commodities and is BULLISH for Bond Prices.

Yields generally follow in the direction of the stock market and are always inverse bond/note prices.

10-Year Treasury Notes (\$UST – Price)

Monthly



10-Year Notes (prices) declined from the key resistance area at \$121.00, which is the 38.2% Fibonacci grid as drawn (actually 120.50).

The trend remains up, moving average orientation remains positive, and we are on the verge of a breakout if stocks continue to decline. If stocks rally, we will remain in the two-year long trading range between 121 and 114 as shown above.

Weekly



After the breakout three weeks ago, price has hit the first upper resistance price target at the 121 level as shown. However, this week sent note prices lower, back into the trading range between 121 and 115.

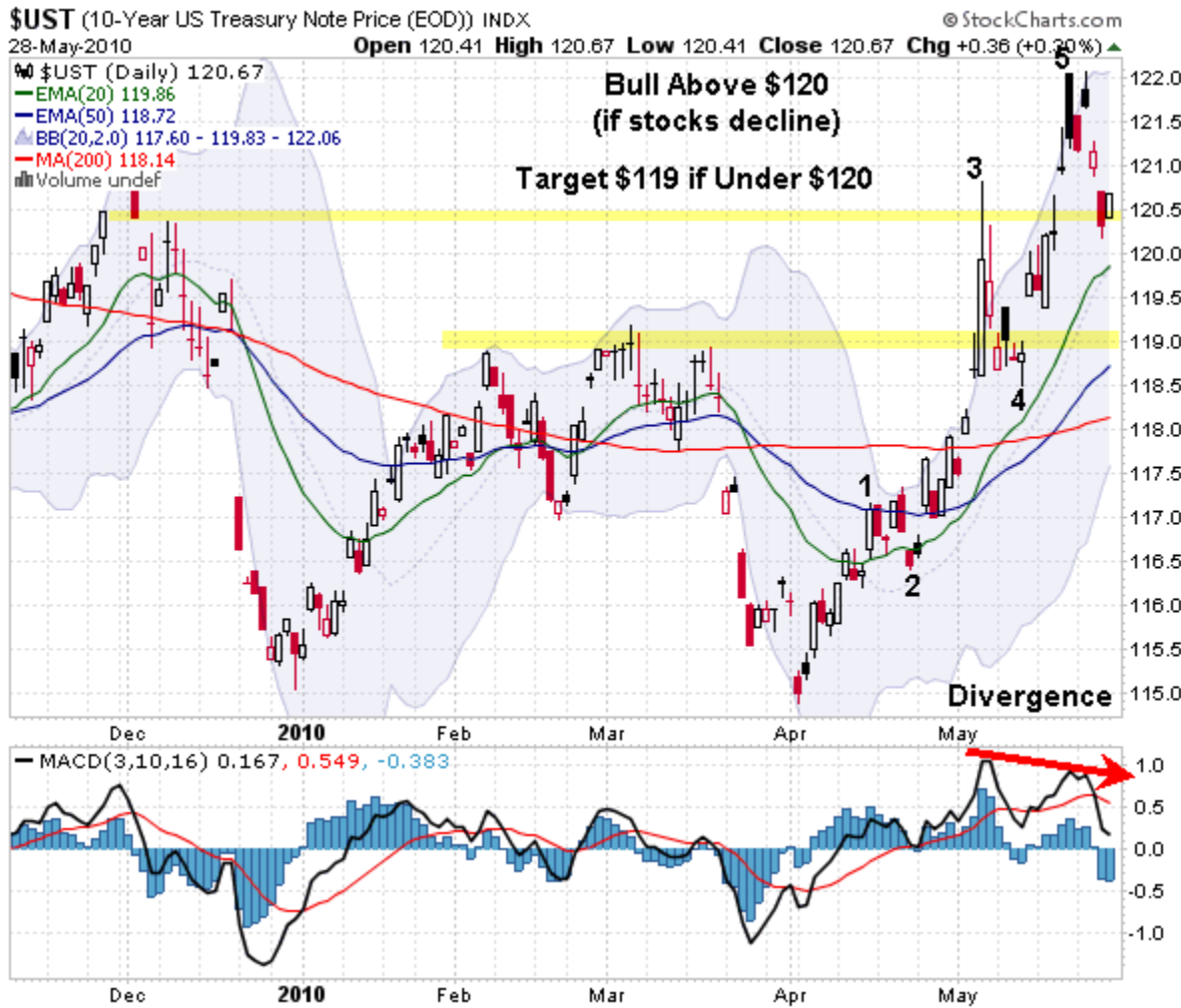
The Fibonacci grid highlights the boundaries to watch for the trading range.

If stocks continue to fall, we will see bonds/notes rally beyond 122 in which case the next target will be \$126.

From an inter-market standpoint, if the S&P 500 breaks under 1,050, then Notes will break above \$122 and could travel to \$126 again.

If the S&P 500 breaks solidly above 1,100, then we would expect notes to continue downward to the 118 price to remain in the lengthy trading range.

Daily



I drew a small-scale Elliott Wave fractal on note prices above, putting the terminal (final) fifth wave at the \$122 level, which also formed a negative momentum divergence (non-confirmation).

\$122 is like 1,040 in the S&P 500. If we see note prices fall under 120, then we can assume that the S&P 500 will have broken back above 1,100 and bonds could travel down to 120 or perhaps even 119.

In this environment, bond/note prices are directly inverse the S&P 500 and crude oil... and are positively correlated with the US Dollar Index.

US S&P 500 (\$SPX)

Monthly



This May's 8% decline was the worst May monthly return since 1940. However, price supported on the key 1,050 lower price target level which also was the rising 200 month SMA... and it could hold as key support, so watch that level very closely. It IS the line in the sand between a deep retracement in the context of a new bull market (similar to where we were in early 2004's retracement down) OR the first swing down in a NEW bear market (similar to where we were at the end of 2007). 1,050 will be key. It would be strongly suggested to be vested out of stocks if under 1,040 and especially if under 1,000.

Let's turn to the weekly chart to see why.

Weekly

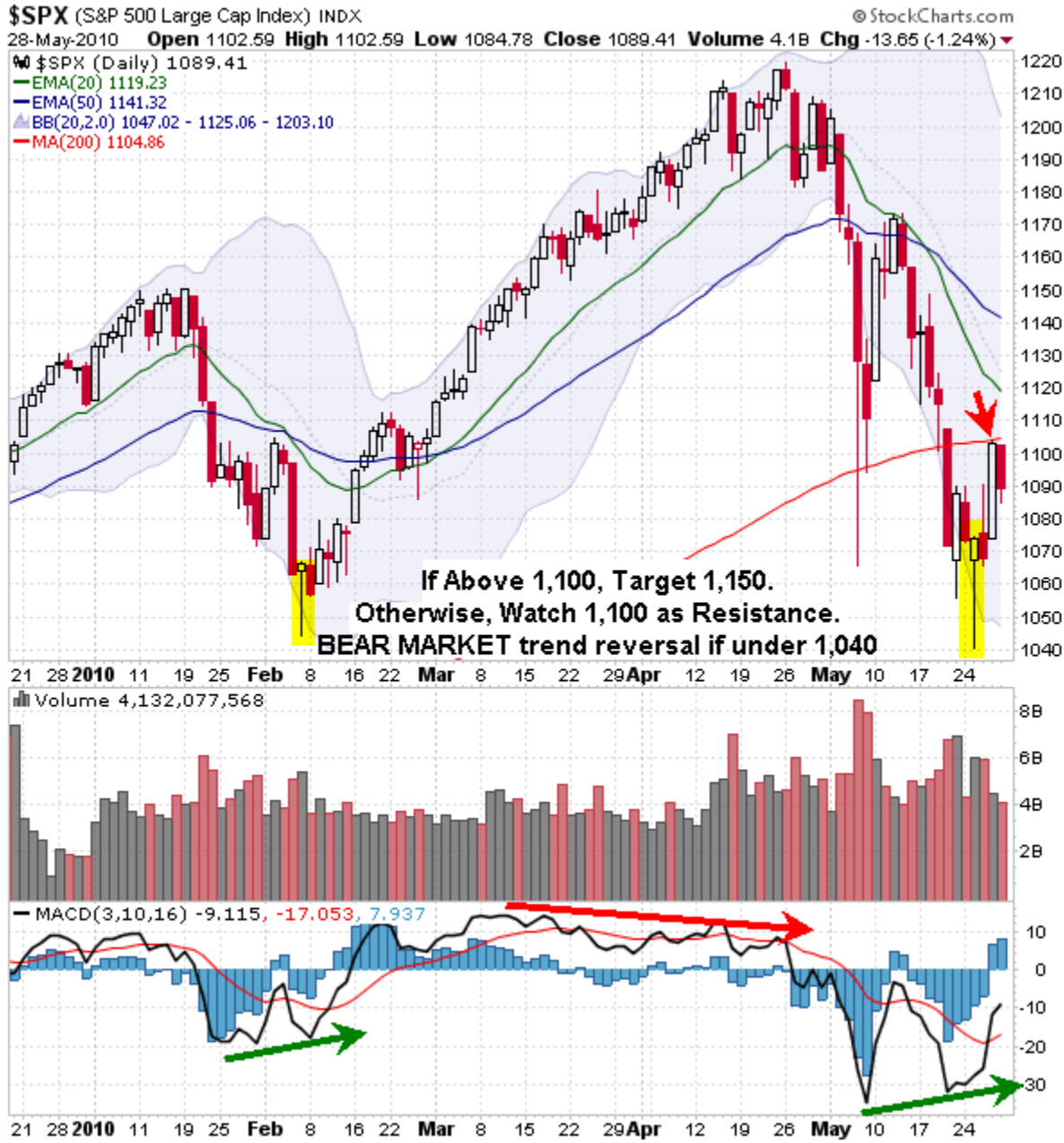


A break under 1,050 means that price would be under ALL moving averages on ALL timeframes, AND would fulfill the "lower high and lower low" requirement for a trend reversal (down). This would set the next "stopping point" (support level) at 850, and if sellers can push under 850 (July 2009's low), then we would target the March 2009 low of 666 again... and it's likely we'll see that if under 850. It's very likely we'll see 850 if under 1,000.

And of course, it's likely we'll see 1,000 if under 1,040... virtually guaranteed. Remember the saying "In a bear market, there is no 'floor' of support."

Volume has been high during the sell-off, confirming the bearish bias. It's all down to 1,040 to hold as the last line of defense for the bulls.

Daily:



Here are the short-term parameters: IF above 1,100, THEN target 1,150... and then IF above 1,150, THEN we're repeating the February/March rally phase and can target new highs. That's the lesser probability right now.

The odds seem to be "IF under 1,040, THEN target 1,000 but really target 850... and IF under 850, THEN target 650."

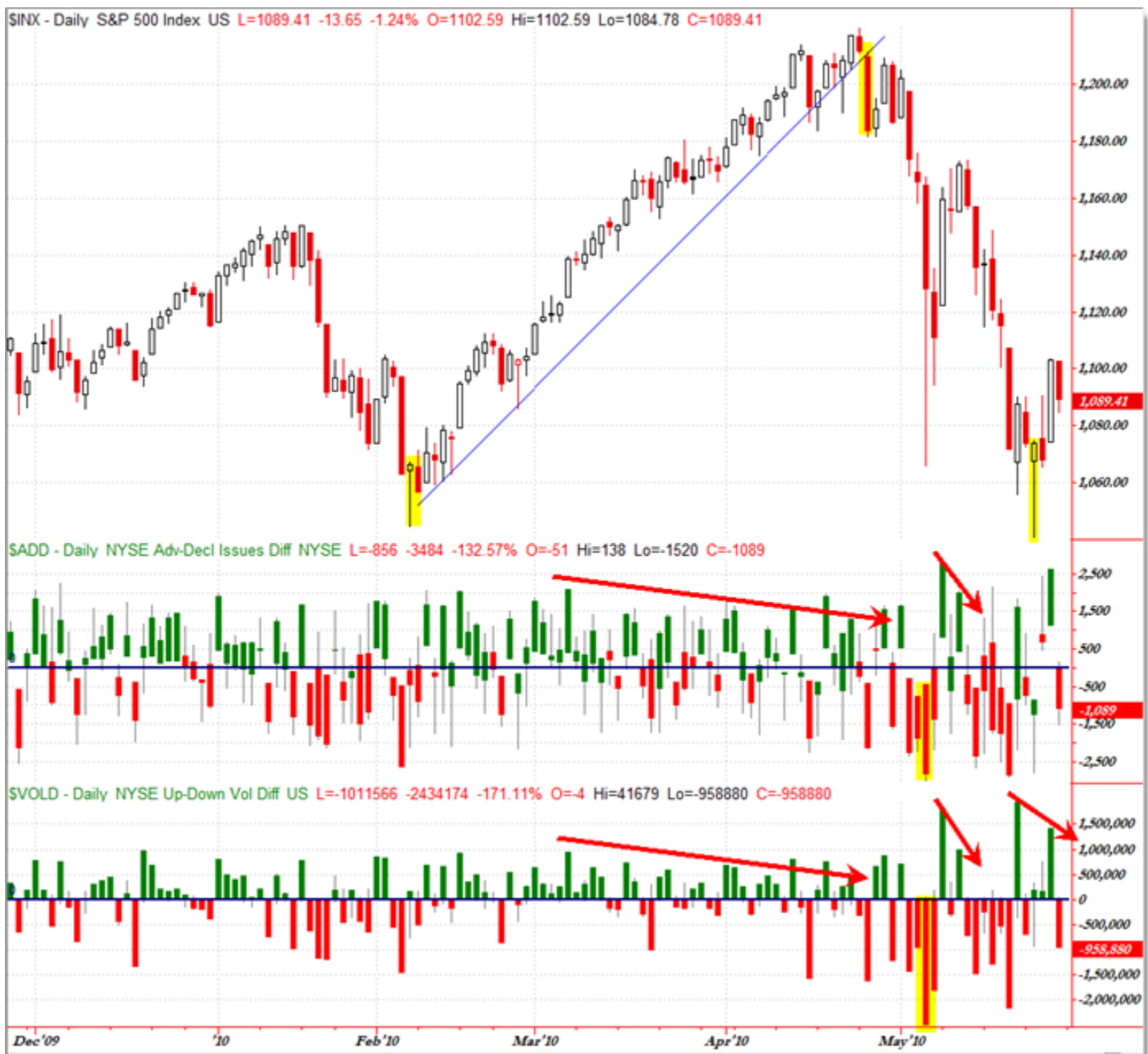
The 1,100 level is the confluence of the 'key' resistance and 200 day SMA - we should know early next week as to the next expected swing - up to 1,150 if above 1,110 or down to 1,040... and below... if we can't get above 1,100.



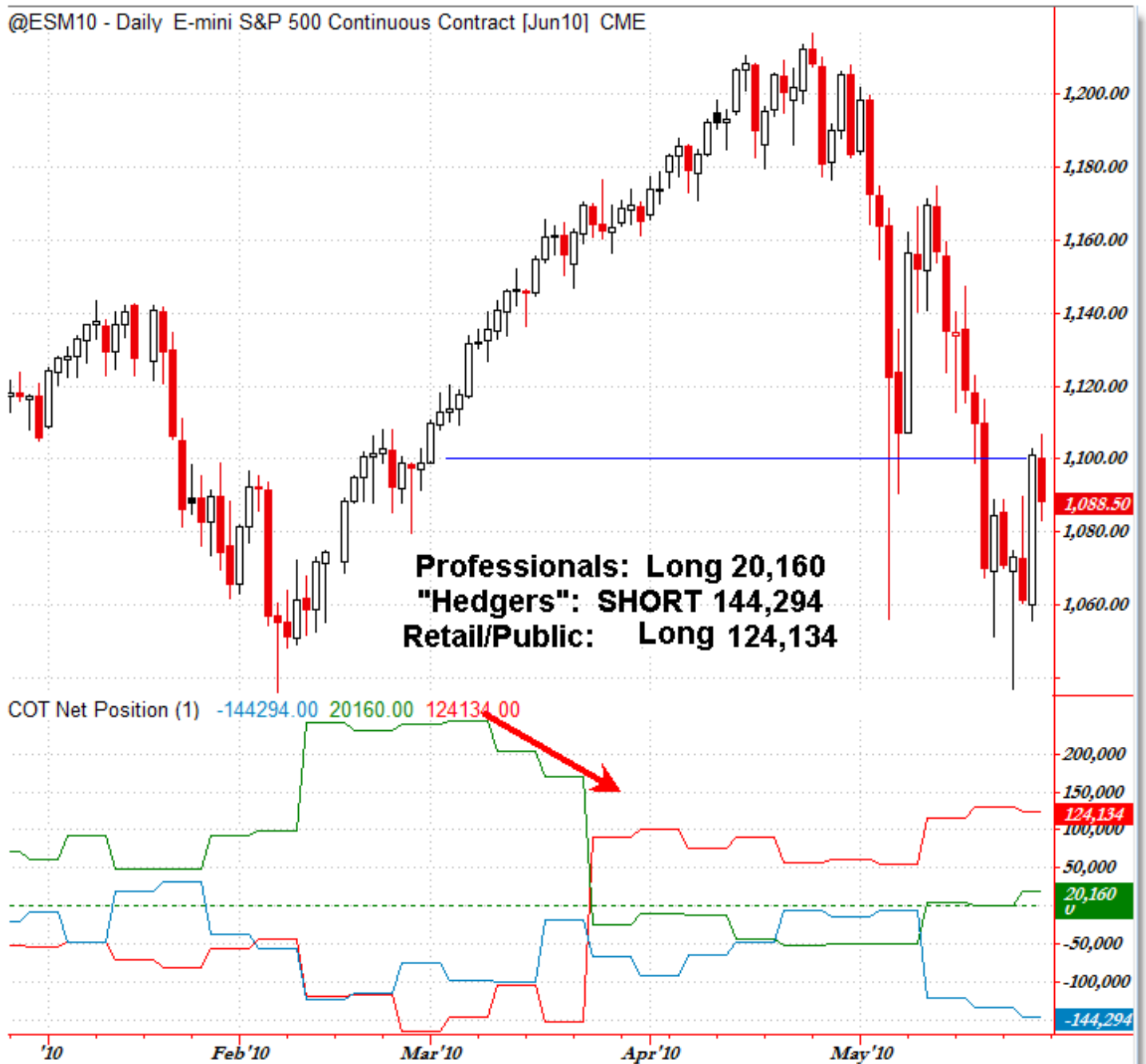
An updated Gann Squares and Andrews Pitchfork (auto-trendline) Grid shows the key overhead Gann level is 1,110 (then 1,143) and then 1,077 then 1,044 from below.

If we break and close under the Gann 1,044 level, then we will have broken down from the long-term Andrews Pitchfork Grid (suggesting a trend reversal) and the key 1,044 level that held the February low.

It WOULD be a game-changer so be prepared to position. That's the bulls' last line of defense.



The updated breadth chart shows a slight negative VOLD divergence as we went into the 1,100 level. A positive breadth divergence - just like in February - forecasted the recent up-swing in price, so again, if we see a move back above 1,100, be prepared to expect a 'short-squeeze' to 1,150.



No major change again in the Commitment of Traders Data. The Retail "Dumb" money (small speculators) still are net LONG 124,000 @ES contracts while the professionals are now net long 20,000 contracts. That's a slight tick-up that is combined with the retail public getting slightly less long (though still VERY long) from last week.

The Commercials or Hedgers - those using the E-mini SP - shorting it to 'hedge' a long/buy portfolio (perhaps they can't go short or are fund managers required to hold an equity portfolio long - are net short their largest level at a net short position of 145,000 contracts. Portfolio managers are not considered dumb money, but professional (in a way), so the fact that fund managers are 'hedging' with such a large position seems to indicate they see further downside as the likely outcome for the markets... else they would not be hedging their portfolios.

Gold

Monthly



Gold continues its monthly/long-term uptrend without major interruption. Unless we see a break of the rising 20 month EMA - currently just under \$1,050 - then we have the long-term primary trend "all clear" to expect higher prices yet to come.

That's the main idea when looking at the monthly frame - it's not advised to try to call a top while the trend is this strong. We turn to lower timeframes for precision analysis.

Weekly



There's a commonly known price target of \$1,300 per ounce, which comes from the inverse head and shoulders pattern, or the ascending triangle pattern (both give the same target), and we peaked \$50 shy of that target three weeks ago. It seems like we're on a trajectory now to retest the \$1,250 level and then continue on to \$1,300.

The play? IF price rallies and breaks back above \$1,250, THEN expect price to test \$1,300, or above it buyers exceed the pattern target. Watch \$1,150 for confluence support, and be prepared to take a stop-loss (if long) if we see a solid move under \$1,150. There are plenty of support levels currently and absolute no resistance levels beyond \$1,250 (the prior high).

In fact, while we're above \$1,200, the expectation is for a move to \$1,250 then \$1,300 unless proven otherwise with a break and close under \$1,150.

Daily



The arc pattern continues to be the dominant short-term technical trendline to watch - last week we had the confluence of the arc and the rising 50 day EMA at \$1,170 that I highlighted as a buy signal (last week's report). That's exactly what happened, as price rose sharply off the expected support line to the overhead short-term target of \$1,200... and again, while we remain solidly above \$1,200, we target \$1,250 then IF above \$1,250, then on to \$1,300.

In the event that price falls back under \$1,200 (braking the 20 day EMA), be cautious, for if we break under \$1,170, then we're likely to see \$1,150. If under \$1,150, then back to \$1,100. Depending on how short your time frame, you won't want to position long while gold is testing lower support levels.

@GC(D) - Daily Gold Continuous Contract [Aug10] COMEX L=1216.00 4.10 0.34% O=1213.40 Hi=1217.30 Lo: ...

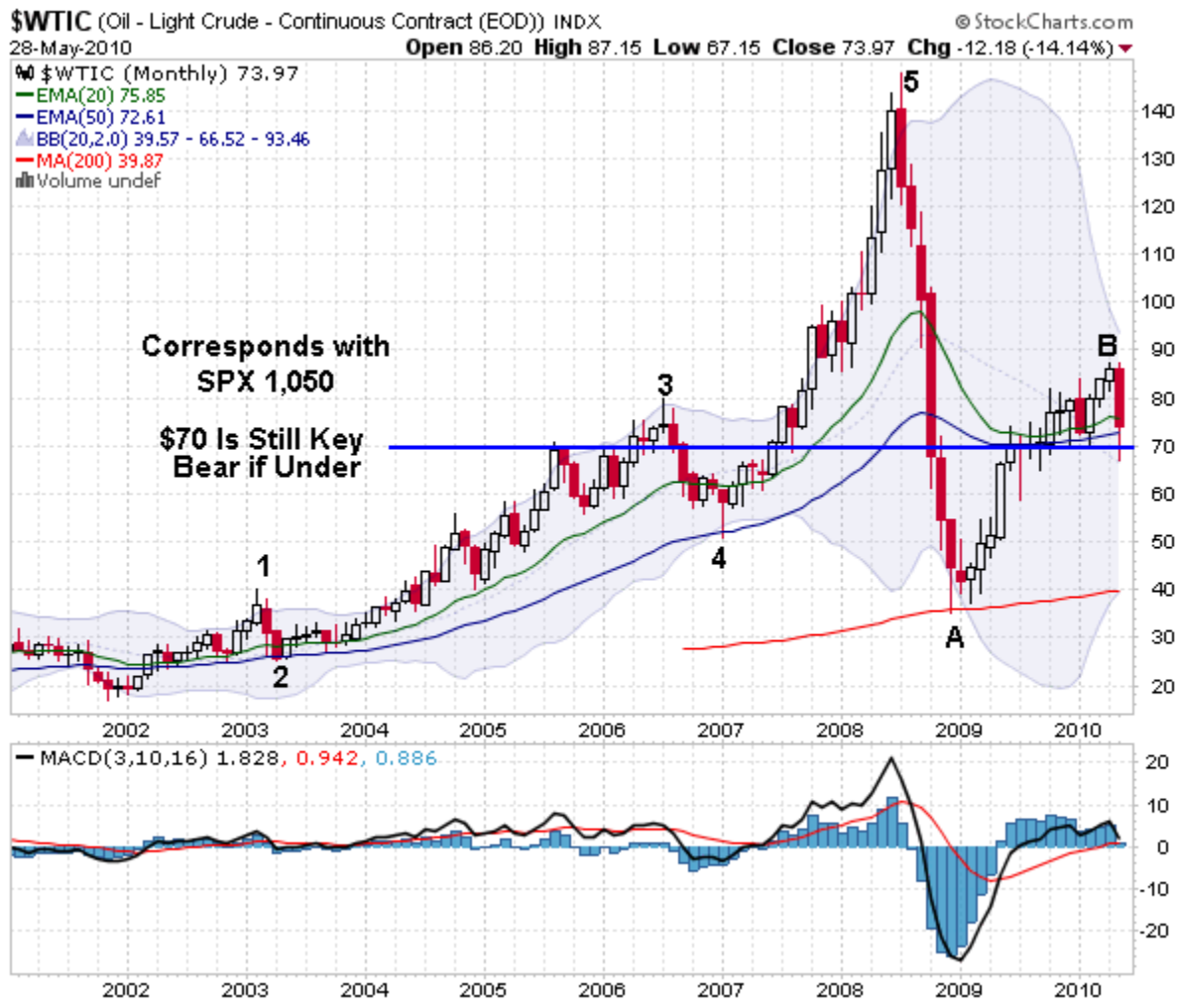


Here is an updated Gann Squares chart on gold, showing the upper targets right here at \$1,218 (BULLISH to target \$1,250 if above \$1,218)... we could see a swing down back to \$1,183 if we can't get above the Gann Level at \$1,218. The doji and hanging man candle suggest that we could be seeing a downswing immediately ahead, but that's fine as long as we don't go under \$1,183/\$1,170.

Under that is \$1,149. If above \$1,253, then we almost certainly will see \$1,300.

WTI Crude Oil (\$WTIC)

Monthly



Like the S&P 500 at the key 1,050 level, oil found support (after a quick intraday dip) at the \$70 level, which should also be viewed as the dividing line between a bull market uptrend and a bear market downtrend.

The larger Elliott Pattern still seems to hint at a "C" wave down yet to come, but that would be negated with a move back above \$90. Until that happens, and if we see a move back under \$70 (that closes under \$69), then it would seem we would do best to take a cautious to bearish approach.

If stocks hold 1,150, then oil will hold \$70. If stocks break above 1,100, then oil will travel back to \$80.

If stocks break under 1,040, then we can look for oil to hit downside targets as seen below.

Weekly



\$70 is key. No other way to say it.

Our low this week was a quick intraday 'crash' low of \$67.15 which aligned with a quick 'test' of 1,040 in the S&P 500. A close under these levels will likely trigger a sharp sell-off that will reach lower targets, including \$60 then \$50.

That is the bearish roadmap. If we see a continued bounce, we have plenty of overhead resistance via the respective moving averages.

Bias - cautious. Watch stocks for clarity in oil's next move.

Daily



Like the S&P 500, oil is under its 200 day SMA and has rallied up into the 20 day EMA resistance (similar to the SP500's 200 day). It looks like we'll see another move down to the \$69/\$67 level, and if we get a close under \$69, then that's a strong "go short" signal.

Otherwise, if we rally above \$75, watch for the next resistance level at the \$77 zone.



The Oil Gann Squares Grid shows four price 'squares' trendlines to watch.

We bounced off the \$67.96 square line (which was also the March 2009 high) and now fell just shy of the \$76.45 line. If we go back above \$77, then we can look for a move perhaps up to \$85.44 - the next Gann target.

A move under \$67 sets up a price fall back to the \$59.96 Gann Square line.

US Dollar Index (\$USD)

Monthly



We ended the month up 7% on the US Dollar Index in a month where the S&P 500 was down 8%.

A move above \$90 will officially turn the long-term trend of the US Dollar index to an UPTREND, so be on the lookout for that, and what that would mean (it would correspond with an official DOWNTREND signal for stocks and oil).

Weekly



The "line in the sand" (monthly) for the Dollar is the \$89 index level, so if Stocks break UNDER 1,040, then we can expect the Dollar to break ABOVE \$89 to new highs not seen since 2006, which will target a move to \$92.50.

The lid blew off the market (so to speak) once we broke above the key \$82 resistance level.

So far, the \$88 level is initial resistance, but if we see another round of panic in stocks, and worsening in Europe, then we'll see a move up to \$92 and perhaps beyond in the US Dollar Index.

Daily



We're trapped in a short-term range between \$87 and \$85 in the US Dollar Index. These are the short-term levels to watch for clues. IF stocks break under 1,040, then we'll see a move to new recovery highs beyond \$87. If stocks break above 1,100, then we'll likely see a move back to \$85 if not \$84. Any move under \$80 turns the tide of the trend, which is strongly up currently.

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